

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following discussion and analysis of the operations, results and financial position of Berkley Renewables Inc. (formerly Berkley Resources Inc.) should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements for the three months ended March 31, 2012 and the audited financial statements for the year ended December 31, 2011, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB")

The following Management's Discussion and Analysis ("**MD&A**") is dated May 30, 2012 and discloses specified information up to that date. Berkley is classified as a "venture issuer" for the purposes of National Instrument 51-102.

### **Forward-Looking Information**

Certain statements in this MD&A and the documents incorporated by reference contain forward-looking information, which includes forward-looking statements within the meaning of applicable Canadian securities laws. Forward-looking statements are statements which relate to future events or our future performance, including our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", or "potential" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors that may cause the Company's or the industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. No assurance can be given that any of the events anticipated by the forward-looking information and statements will occur or, if they do occur, what benefits the Company will obtain from them. This MD&A contains forward-looking information and statements, which may include but are not limited to: statements with respect to the financial and operating performance of the Company; investments objectives and strategies; the business goals and strategies; forecast operating and financial results; planned capital expenditures; potential future market for products; the Company's plans for, and results of, exploration and development activities; the Company's treatment under governmental regulatory and royalty regimes and tax laws; competitive advantages; business prospects and opportunities; costs and timing of developmental new projects; management's assessment of future plans and operations; and requirements for additional capital.

While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect management's current judgment regarding the direction of the business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested in this MD&A. These assumptions, which includes management's current expectations, estimates and assumptions about certain projects and the markets in which the Company operates, the global economic environment, interest rates, the successful and timely implementation of capital projects; the Company's ability to generate sufficient cash flow from operations to meet current and future obligations and other risks and uncertainties described from time to time in the filings made with securities regulatory authorities; the impact of increasing competition; the Company's ability to obtain qualified staff, equipment and services in a timely and cost efficient manner; the ability of the operator of the project in which the Company has interests to operate in a safe, efficient

and effective manner; future commodity prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Company operates may prove to be incorrect. A number of risks and uncertainties would cause the Company's actual results to differ materially from those expressed or implied by the forward-looking information and statements, including, but not limited to: the failure of the Company to execute business plans; general economic conditions affecting the Company; risks arising from operations generally; competition; accuracy of cost estimates; fluctuations in commodities prices; fluctuations in product supply and demand; risks associated with technology and its application to the business; changes in the applicable regulatory framework, including changes in regulatory approval process and land-use designations, royalty, tax, environmental, greenhouse gas, carbon and other laws and regulations, or changes to the associated with compliance; the loss of key management employees; the Company's abilities to control operating costs, general administrative and other expenses; other factors beyond the Company's control; insufficient investor interest in the Company's securities which may impact its ability to raise additional financing as required.

These forward-looking statements are based on the estimates and opinions of management at the time they are made. Although management believes that the expectations reflected in these forward-looking statements are reasonable, future results, levels of activity, performance or achievements cannot be guaranteed. Readers of this MD&A are cautioned not to rely on these forward-looking statements. Except as required by applicable securities law, the Company does not intend to update any of the forward-looking statements in this MD&A to conform these statements to actual results.

### **Overview**

Berkley is a publicly-traded, Vancouver-based, oil and gas company engaged in the acquisition, development, exploration and production of petroleum and natural gas reserves in Alberta. The Company has interests in producing natural gas wells as well as the Crossfield natural gas project. The Company believes that the Crossfield project will continue to advance with the Alberta licensing authorities and proceed with a drilling program.

### **Strategy**

Berkley's main focus is the exploration and development of its existing properties and diversification into renewable sources of energy, specifically photovoltaic power generation. Several opportunities are under evaluation within Canada and internationally and a number of discussions are in progress with a view to advancing one or more projects in 2012.

## **Results of Operations**

### **Three months ended March 31, 2012 compared with the three months ended March 31, 2011**

**Revenue:** Revenue from the sale of oil and natural gas (net of royalties) increased slightly from \$15,376 during the period ended March 31, 2011 to \$18,062 in the period ended March 31, 2012. The Company continues to receive income from only two natural gas interests, John Lake and Carbon, in Alberta, Canada.

**Expenses:** Operating costs were \$3,707 in the period ended March 31, 2012 compared with \$3,947 in the same period last year.

**Net Oil and Gas Income:** Net oil and gas income includes a charge for depletion and accretion expense, a non-cash charge to operations based on an estimate of changes to oil and gas reserves. The Company had net oil and gas income of \$9,815 for the period ended March 31, 2012 compared with \$8,387 in the same period last year.

**General and Administration Expenses:** General and administrative ("G&A") expense was \$157,705 in the period ended March 31, 2012 compared to \$219,809 for the same period of last year, a reduction of \$62,104. The reduction in G&A expenditures relates to a seasonal reduction in business activity and consulting. Management anticipates that the level of expenditures will be more consistent with 2011 levels in future quarters until a new project is identified and acquired. Administrative expenses were \$28,098 for the quarter ended March 31, 2012 as compared to \$34,131 in the same period 2011, due to a change in office location and related expenses in 2011 were. Management fees were \$104,480 for the quarter ended March 31, 2012 as compared to \$93,905 in the same period 2011. The increase is due to additional management personnel required to support the Company's efforts to diversify into renewable energy. Professional fees and consulting fees for the period ended March 31, 2012 were \$508 and \$17,248, respectively as compared to \$41,997 and \$41,31, respectively, in 2011. The decrease is due to a seasonal reduction in business activity, and reduced professional and regulatory costs including costs to transition to International Financial Reporting Standards ("IFRS"). Shareholder information costs were \$2,506 in the period ended March 31, 2012 compared to \$3,139 in the same period 2011. Filing and transfer agency fees were \$4,396 in the period ended March 31, 2012 as compared to \$1,860 in the same period 2011. The increase is due to special meeting costs incurred during the period ended March 31, 2012.

**Summary of Quarterly Results**

	<b>Mar. 31, 2012</b>	<b>Dec. 31, 2011</b>	<b>Sept. 30, 2011</b>	<b>June 30, 2011</b>	<b>Mar. 31, 2011</b>	<b>Dec. 31, 2010</b>	<b>Sept. 30, 2010</b>	<b>June 30, 2010</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Oil and gas revenue, net of royalties	\$18,062	\$16,897	\$10,850	\$13,687	\$15,376	\$19,472	\$91,146	\$88,581
Operating costs	3,707	5,196	5,675	4,372	3,947	3,946	39,895	36,351
Revenue after operating costs	14,355	11,701	5,175	9,315	11,429	15,526	51,251	52,230
Depletion and accretion expense	4,540	9,509	4,607	7,082	3,042	18,407	32,224	35,178
General and admin	157,752	363,175	204,771	314,804	219,809	481,195	137,381	113,291
Income (loss) before other items	(147,937)	(360,983)	(204,203)	(312,571)	(211,422)	(484,076)	(118,354)	(96,239)
Other income (expenses) and comprehensive income	36,397	(108,107)	(170,554)	1,589,603	(286,610)	(246,363)	-	(1,127)
Total comprehensive income (loss) for the period	(111,540)	(469,090)	(374,757)	1,277,032	(498,032)	(730,439)	(118,354)	(97,366)

**Liquidity and Capital Resources**

Berkley currently earns revenue from its oil and natural gas interests. The Company invests its cash and cash equivalents with major Canadian financial institutions with investment grade credit ratings. Berkley has no outstanding bank debt or other interest bearing indebtedness as at March 31, 2012. At March 31, 2012, Berkley had \$563,223 in cash and cash equivalents and working capital of \$573,750 March 31, 2012. These balances will be used to fund future capital expenditures including development of its exploration and evaluation property, photovoltaic power projects, office and administrative expenses and working capital requirements. There were no funds raised from investing activities during 2011 or the three months ended March 31, 2012

In order to undertake exploration and development programs, the Company will require further financial resources. Berkley assesses its financing requirements and its ability to access debt or equity markets on an ongoing basis. Given the current conditions of the financial markets, the company will seek to maintain financial flexibility and will monitor and assess its financing requirements as its activities progress. The Company's ability to access the equity or debt markets in the future may be affected by prolonged market instability. The inability to access the equity or debt markets for sufficient capital, at acceptable terms, and within required timeframes, could have a materially adverse effect on the Company's financial condition, results of operations and prospects.

### **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

### **Outstanding Share Data**

As of the date of this MD&A, Berkley has the following securities outstanding:

- 4,613,948 common shares;
- 35,000 stock options.

Each stock option entitles the holder thereof to acquire one common share. The number of shares reserved for issuance pursuant to the options granted will not exceed 10 per cent of the Company's issued and outstanding common shares. As of the date of this MD&A, total stock options outstanding represent 0.76% of the total issued and outstanding common shares.

### **Related Party Transactions**

#### **i. Management Transactions**

The remuneration of directors and other members of key management personnel for the three months ended March 31, 2012 and 2011 were as follows:

	<b>March 31, 2012</b>	<b>March 31, 2011</b>
	<b>\$</b>	<b>\$</b>
Compensation, including bonuses	104,480	87,000
Share-based payments	-	-
	<b>104,480</b>	<b>87,000</b>

#### **ii. Other related party transactions**

As at March 31, 2012 and 2011, the amount of transactions made with parties not at arm's length to the Company not otherwise disclosed consists of the following:

- a) Directors' fees of \$3,500 (March 31, 2011 - \$3,500) were payable to directors.
- b) Included in accounts payable and accrued liabilities are rent and administration expenses of \$6,230 payable to a private company owned by public companies having common directors (March 31, 2011 - \$4,267).

The transactions were in the normal course of operations and agreed to by the related party and the Company and have had been measured at the exchange amount.

### **Critical Accounting Estimates**

The preparation of these financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amount of revenues and expenses for the years reported. These estimates are reviewed periodically, and as adjustments become necessary, they are reported in operations in the period they become known.

## **Financial Instruments and Financial Risk Management**

### ***Fair Values***

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgement, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values. At March 31, 2012, the Company's financial instruments include cash and cash equivalents, trade and other receivables, marketable securities, deposits and trade and other payables. The fair values of these financial instruments approximate their carrying values due to their short-term maturity.

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act.

Berkley classifies the fair value of the financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1 - inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets;
- Level 2 - inputs to the valuation methodology included quoted prices for identical assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace; and,
- Level 3 - inputs to the valuation methodology are not based on observable market data.

Cash and cash equivalents and marketable securities are recorded based on Level 1 of the fair-value hierarchy. Trade and other receivables and accounts payable are recorded based on Level 3 of the fair-value hierarchy.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments. This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout these interim consolidated financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with the risk management policies as set out herein:

### ***Credit risk***

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. A substantial portion of the Company's trade and other receivables are with natural gas and liquids marketers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. As at March 31, 2012, the maximum credit exposure is the carrying amount of the trade and other receivables of \$151,563 (December 31, 2011 – \$132,367). As at March 31, 2012, the Company's receivables consisted of \$109,232 from joint venture partners and other trade receivables and \$42,331 of revenue receivable from petroleum and natural gas marketers.

The Company did not provide for any doubtful accounts nor was it required to write-off any receivables during the three months ended March 31, 2012 (December 31, 2010 - \$36,405). The Company would only choose to write-off a receivable balance (as opposed to providing an allowance) after all reasonable avenues of collection had been exhausted.

As at March 31, 2012, the Company considers its receivables to be aged as follows:

Not past due	16,075
Past due by less than 90 days	6,713
Past due by more than 90 days	128,775
	<u>151,563</u>

### **Liquidity risk**

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company's operating cash requirements are continuously monitored by management. As factors impacting cash requirements change, liquidity risks may necessitate the need for the Company to raise capital by issuing equity. The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

### **Market risk**

The significant market risk exposures affecting the financial instruments held by the Company are those related to foreign currency exchange rates and commodity price risk which are explained as follows:

i. **Currency risk**

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company enters into transactions denominated in United States currency for which the related expenses and accounts payable balances are subject to exchange rate fluctuations. As at March 31, 2012, the following items are denominated in United States currency:

	<b>March 31,</b> <b>2012</b> <b>CAD\$</b>	December 31, 2011 CAD\$
Cash and cash equivalents	<b>856</b>	883
Accounts payable and accrued liabilities	<b>51,899</b>	53,238

ii. Commodity price risk

Commodity price risk is the risk that the cash flows and operations of Berkley will fluctuate as a result of changes in commodity prices. Significant changes in commodity prices can also impact Berkley's ability to raise capital or obtain additional debt financing. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand.

Berkley's financial performance is closely linked to crude oil and natural gas prices. While Berkley may employ the use of financial instruments in the future to manage these price exposures, it currently does not have enough producing wells to hedge its production, and its crude oil and natural gas liquids are sold into spot markets.

**Disclosure Controls and Procedures**

The Chief Executive Officer and the Chief Financial Officer of the Company are responsible for evaluating the effectiveness of the Company's disclosure controls and procedures and have concluded, based on our evaluation, that they are effective as at March 31, 2012 to ensure that information required to be disclosed in reports filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time period specified in those rules and regulations.